



## **Dissolving Your LLC in California – Important Things to Consider**

There may come a time when owners of a limited liability company decide to close their business. Closing the business is an extremely important process that can have long-term consequences for an owner. Formally, this process is called “dissolution.” While there are many ways to dissolve an LLC, including involuntary dissolution, this article focuses on voluntary dissolution by the member(s) of an LLC that was actively conducting business while in existence.

### **Dissolving the LLC**

The first step to voluntarily dissolving an LLC involves the members looking at the foundation documents of the company, which are typically the operating agreement and the articles of organization. It is likely that one of these two documents will contain procedures and/or rules for how to dissolve the company. In most cases, the procedure begins with a vote of the LLC members on a resolution to dissolve. It is important that any specific requirements regarding the voting of member(s) are followed, such as providing for when a meeting to vote should take place, whether any advance notice to the LLC’s members is required in preparation for the meeting, and what required percentage of members is needed to pass the vote.

If there are no such rules set forth in an operating agreement or articles of organization or the company has not drafted an operating agreement to begin with, California’s LLC Act specifies a default method for voluntarily dissolution of an LLC, which is by simple majority vote of the member(s) entitled to vote on the resolution.

### **“Winding Up”**

Following the dissolution of the LLC, it will continue to exist for the sole purpose of “taking care” of certain final matters, also known as “winding up” the company. One or more members of the LLC can be designated to handle the process of winding up. Under California’s LLC Act, key winding up tasks include: 1) prosecuting and defending actions by or against the LLC in order to collect and discharge obligations, 2) disposing of and conveying the LLC’s property, and 3) collecting and dividing the LLC’s assets. Please contact our office for specific guidelines as to how the LLC’s assets should be distributed.

### **Certificate of Dissolution/Cancellation**

After dissolving and winding up the LLC, members are required to file a certificate of dissolution or cancellation with the Secretary of State (“SOS”). If all members of the LLC vote to dissolve the business, there is no need to file a certificate of dissolution, only a certificate of cancellation. To complete this process, the following information needs to be provided: 1) the name of the LLC, 2) the LLC’s SOS filing number, and 3) a statement that the proper final tax

return has been or will be filed with the Franchise Tax Board. There is no fee to file the certificate of cancellation by mail; however, if the certificate is delivered in person, there is a \$15 special handling fee.

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